

Personal Financial Management - Lesson 3

Banking and Financial Management Services - Checkbook Management

ENABLING OBJECTIVES:

Upon completion of this lesson, students will be able to:

- 3.1 Explain the process of selecting a financial institution
 - 3.1.1 Explain how to select a checking account
 - 3.1.2 Describe different types of checking accounts
 - 3.1.3 Identify appropriate financial institution to meet your or your family's needs
 - 3.1.4 Demonstrate the ability to compare the pros and cons of the services and fees of different financial institutions
- 3.2 Demonstrate the ability to manage a checking account
 - 3.2.1 Demonstrate the ability to fill out a deposit slip
 - 3.2.2 Demonstrate the ability to properly fill out a check
 - 3.2.3 Demonstrate the ability to enter all transactions in a check register
 - 3.2.4 Demonstrate the ability to reconcile your checking account
 - 3.2.5 Identify ways to avoid over-drafting your checking account
 - 3.2.6 Describe the fees involved in over-drafting your checking account
 - 3.2.7 Explain how checks can be used as legal proof of payment
- 3.3 Describe the legal ramifications of over-drafting your checking account
 - 3.3.1 Describe the civilian legal ramifications of bounced checks
 - 3.3.2 Describe the military legal ramifications of bounced checks
- 3.4 Describe the difference between ATM, credit, and debit cards
 - 3.4.1 Describe the fees involved with using an ATM card
 - 3.4.2 Describe the fees involved in using a credit card
- 3.5 Describe the alternatives to having a checking account
- 3.6 Identify the different sources for help with banking or checkbook assistance
- 3.7 Explain how core values apply to the moral responsibility of good money management

REFERENCES:

1. OPNAVINST 1740.5A (Draft)

2. U.S. Navy's Personal Financial Management Standardized Curriculum (PERS 662)
3. OPNAVINST 1740.1 Fleet and Family Support Center
4. Command Financial Specialist Training Manual NAVPERS 15608C
5. www.lifelines2000.org
6. www.moneycentral.msn.com

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Personal Financial Management - Lesson 3

Banking and Financial Management Services - Checkbook Management

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CASE STUDIES:

None

VIDEO TAPES:

None

NOTES TO THE FACILITATOR:

The main points of this topic are:

- \$ How to select a financial institution
- \$ Legal and military ramifications of bad checks
- \$ How to write checks, make deposits, and balance a checkbook
- \$ Differences between credit, debit, and ATM cards
- \$ Where to go for help
- \$ Relationship of Navy Core Values

I. INTRODUCTION In this lesson we will talk about Banking, Financial Management Services – that is “money handling” services and checkbook management. We're going to talk about handling money –your real money handling needs, why to have a checking account, all of the ins and outs of checking accounts, and the various features that may be associated with these accounts. You will learn how to select the best account for your particular situation, and how to select the right financial institution. We will end by relating how exercise of core values in handling your money leads to financial responsibility resulting in good money management.

A. Managing your personal finances is serious. Failure to properly discharge this responsibility can have serious consequences.

B. How can you avoid bouncing checks? First, you need to select the right financial institution with the right type of checking account, and second, you **MUST** keep that account balanced. Methods to accomplish these tasks are the main topics of this lesson.

SHOW SLIDE 3-1 BANKING, FINANCIAL MANAGEMENT SERVICES, AND CHECKBOOK BASICS

SHOW SLIDE 3-2 SERIOUS BUSINESS

SHOW SLIDE 3-3 HOW TO AVOID BOUNCING A CHECK

C. What are your real “money handling “ needs?

Everyone needs a place to keep his/her money safe and secure, protected from hazards and theft. At the same time, you need to have access to your money, to be able to spend it, transfer it, and maybe even grow it. And most of you probably need to be able to do all these things at minimum cost.

D. What are some solutions for these needs? They could range from hiding your money under a mattress, to acquiring a personal safe or safety deposit box, to having accounts at one or more financial institutions. Some form of checking account is probably a major part of the answer for most of you. Deciding what is best for you requires a solid understanding of checking accounts and how to manage them. You may be surprised to discover there is a lot you don't know right now about the “simple” checking account. I guarantee all of you will learn things that will save you money or make you more money, and, most importantly, keep you out of trouble with your checking accounts. This can make a difference in your life.

SHOW SLIDE 3-4 “MONEY HANDLING” NEEDS

SHOW SLIDE 3-5 POSSIBLE SOLUTIONS

II. CHECK WRITING BASICS Please give me a quick show of hands. How many of you already have a checking account? How many of you do banking on-line? How many of you have some form of bankcard? Now, how many of you have ever had any training, even by your parents, on how to use and manage any or all of these financial services? Well, today is your lucky day, because we are going to learn a lot about all of these. I noticed that some of you did not raise your hand for any of these questions. Not only is this course going to help you learn how to do it right, but you will also be able to avoid a lot of the mistakes that all those who did raise their hands have undoubtedly already made. So let's get started by addressing just what a check really is.

- A. OK, what is a check? To most of you it is a piece of paper that comes in a little book that you fill in with some amount of money and give to someone else as payment. While all that is true, did you know that it is actually a **LEGAL DOCUMENT – A CONTRACT**. Did you ever think of it that way? That is the basis for most laws concerning checks. A check is a promise to pay—a guarantee that there is money in your checking account to cover the amount for which the check was written. Without money in the bank to back it up it is **ILLEGAL** to provide a check for payment.

SHOW SLIDE 3-6 MANAGING YOUR CHECKBOOK

Note to facilitator

Ask the following question:
What is a check?

SHOW SLIDE 3-7 WHAT IS A CHECK

After it is cashed, a canceled check is proof of payment if there is a dispute. Checks are not money until you fill them in and sign them. But they can be forged or altered. That's why it's important to know how to protect yourself from forgery or someone trying to change your check so they get more money than you intended. Let's examine the information on a check and go through the mechanics of filling out a check properly.

1. The routing number and the account numbers are printed on the bottom in the funny looking numbers. These allow the bank machines to read which bank the check is drawn on and which account. The routing number is the first nine digits on the left. Second set of numbers are the accounting numbers. Last set of numbers is the check number.
2. The check number allows you to keep track of checks you have written.
3. Personal information includes the information that you want to be on there about you. It can save you time when merchants require certain information in order to accept your check. Often they require your phone number and driver's license number, and sometimes your social security number.

SHOW SLIDE 3-8 ROUTING NUMBERS

SHOW SLIDE 3-9 CHECK NUMBER

SHOW SLIDE 3-10 PERSONAL INFORMATION

You might want to consider carefully whether or not you really want to print your social security number on your checks. If it is openly available, it can lead to abuse of your personal information.

4. The financial Institution information identifies your bank and lends an official air to your check. After all, it is an official, legal document.

5. Now for the parts that you must fill out. Start with the date. Put in today's date. Sometimes you may want to write a check for a later date. This is probably NOT a great idea. Just because a later date is written on the check does NOT guarantee that the payee or your bank will not process it before the date you put on it. If you don't have sufficient funds to cover the check today, but expect to at the later date, and it gets processed anyway, it could bounce - and that's trouble for YOU. A simple rule is IF YOU DON'T ALREADY HAVE THE FUNDS IN THE BANK, DON'T WRITE THE CHECK! Just because you have checks does not mean you have money.

6. The Payee is the person or business that you are writing the check to. Don't leave this blank. If you do, your check will become just like cash. Anyone could enter his/her own name in there and cash it.

SHOW SLIDE 3-11 FINANCIAL INSTITUTION

SHOW SLIDE 3-12 DATE

SHOW SLIDE 3-13 PAYEE

If you simply want cash out of your account for yourself, either put your own name or write CASH in this blank, and promptly cash it.

7. There are two amount blanks, one for a numerical entry, and the other for a written entry. It is important that you fill in these blanks in a way that they cannot be altered in an undetectable fashion. That means you should write the numbers with no spaces in between and with the cents portion clearly different from the dollars portion. If there is space left after the cents, it is a good idea to draw a line in the extra space. This will make it impossible for someone to add zeros to your amount and take out more than you intended. The written amount should also fill the entire line or have a line drawn in the unused space. If for some reason the number and written amounts are different, the written amount will be honored, if the check is processed at all.
8. The “For” space is for your own annotation. This is where you should enter the account number when you are paying a bill, and you can enter “paid in full” to prevent further charges when that is appropriate.

SHOW SLIDE 3-14 AMOUNT OF CHECK

SHOW SLIDE 3-15 MEMO ANNOTATION

It is also the place where you can make notes to yourself concerning the purpose of the payment if it is not obvious. This is especially helpful when you are following a budget or a spending plan in keeping track of your expenditures.

9. The last blank that you should fill in is your signature. This is what makes the check a legal binding contract. You should make doubly sure all the information on the check is correct and complete before you sign it. It's a good idea not to sign it until you are ready to render it – that is, to present it to the payee, either in person or by mail. A word about your signature. Since you came into the Navy, they have always asked you to sign various official documents with your “payroll” signature. Right? But did they ever once explain what that meant and what the significance of that really is? Probably not. Your payroll signature is your official signature for official and legal documents. It might well be the only signature you have ever used, so you might have wondered about it. I know I did when I was first asked to sign with my “Payroll Signature” – so I just signed with my full first name, middle initial, and last name, and it has been that almost all my adult life. But I have used other signatures, and I suggest you might want to consider that also.

SHOW SLIDE 3-16 SIGNATURE

“Out there” there are a lot of unscrupulous individuals who will try to separate you from what’s yours and take it for them. You will find in due time that people in the service are a special breed – and you are in the process of becoming part of that special breed, which is one of the reasons that you are taking this course. The longer you are in the service, the more you will trust and know your fellow servicemen. In essence, they will become known entities to you, and you will come to rely on that and to trust that. But it is NOT so in the world you recently came from – the civilian world. There are sharks and wolves out there, and they are waiting to prey on you – that is why you need to be careful to whom you divulge your social security number and your payroll signature. I use my payroll signature on financial documents, and a variation of it on all other documents. This is added protection against someone seeing my signature and learning to forge it – if it is not my payroll signature, it will not be successful when used for forgery.

10. The signature that you use on your checks should be the one that is on the signature card that you filled out when you opened your checking account. It's now time talk a bit about common mistakes that you need to avoid.

SHOW SLIDE 3-17 SAMPLE SIGNATURE CARD

B. There are a lot of common mistakes that people make when writing checks. Any of these could lead to trouble, FOR YOU. We've already touched on a few, which we will quickly review, and there are a few more that we have not yet mentioned.

1. Postdating the check. This could cause your check to bounce if it is processed early and there is not enough money to cover the check.
2. Leaving the Payee blank. This could allow anyone to enter any payee they chose.
3. Not lining through after the dollar amount. This could leave space for someone to increase the amount.
4. Illegibility. This could cause the wrong amount to be processed or the check not to be processed at all.
5. Empty Spaces. This could invite altering the check in a number of ways.
6. Only filling in the numbers. This could invalidate the check or allow someone to enter the written amount for more than you intended.

SHOW SLIDE 3-18 COMMON MISTAKES

CLICK FOR BULLET

CLICK FOR BULLET

CLICK FOR BULLET

CLICK FOR BULLET

CLICK FOR BULLET

CLICK FOR BULLET

7. Not signing the check. This could cause the check to not be honored.
8. Not using the same signature as on the signature card. This could cause the check to not be honored.
9. Not initialing errors. This could invalidate the check. It is better to VOID the check and start again.
10. Writing in pencil or erasable ink. This invalidates the check and of course it is subject to alteration. Pencil-written documents are NOT legal contracts.
11. As an aside, when you send checks through the mail, never use any place such as your home mailbox where a thief could get your envelope out. Your written check gives a thief your account number and your authorized signature. He/she could then go to a different branch, pose as you, and wreak havoc on your finances and reputation.

SHOW SLIDE 3-19 COMMON MISTAKES

CLICK FOR BULLET

CLICK FOR BULLET

CLICK FOR BULLET

SHOW SLIDE 3-20 POSTING AT INSECURE MAILBOX

III. CHECK WRITING EXERCISE O.K., let's practice. Smile! This may be the only time in your lives that you get to write a check and it doesn't cost you money. There is a blank check in your student handout. You are to write it out to pay a charge on your Last National Bank VISA account as indicated on the screen. Take a few minutes to fill out the check and raise your hand when you're ready for one of us to check your work.

IV. HOW TO MAKE DEPOSITS Although the Direct Deposit System should take care of your paychecks, you will undoubtedly have to deposit money directly into your checking account at some time in your life. Who knows? Maybe a rich aunt or uncle will send you a couple of hundred for your birthday. So let's see how we make deposits.

- A. You may deposit any combination of cash and checks. If your deposit is only checks, and you want some cash immediately, you may make what is known as a "split" deposit, where some funds go into your account and some are returned to you as cash. Receiving cash back at the time of a deposit will require that you sign the deposit slip. Be aware that if your account is overdrawn, the bank is unlikely to give you cash back unless the balance of the deposit will cover the overdraft.

SHOW SLIDE 3-21 CHECK EXERCISE

NOTE TO FACILITATORS: Examine each student's check when he/she is ready. Ensure it is properly filled out. Be sure they did not date it one week from today. Discuss any errors with the student. Note common errors, if any.

SHOW SLIDE 3-22 DEPOSITS

- B. Guess what? You make a deposit by using a deposit slip. The slip is very straightforward. Each check must be shown, so if you have more than two or three, you will have to list some on the back and carry the total to the front. Double-check your math, even if you scored 800 on the math SAT. Remember that you only need to sign the deposit slip if you are getting some cash back. The bank teller will give you a deposit receipt. Keep it in a safe place until the deposit shows on a future bank statement.

SHOW SLIDE 3-23 DEPOSIT SLIP**SHOW SLIDE 3-24 DEPOSIT SLIP EXERCISE****DEPOSIT SLIP EXERCISE**

Have students fill out the deposit slip in their handouts according to the information shown on the slide. Check each student's work for accuracy.

C. You must endorse any checks you deposit or cash. This means signing your name in the appropriate place on the back of the check. If the check is not made out to the exact name that is on your account, the bank may ask that you endorse the check twice, once with the name on the front and again with your standard bank signature.

D. Funds that you deposit, even cash, are normally not available to cover checks that arrive at the bank for payment on the same day as your deposit. The chart shows the BY LAW availability of various types of deposits. If you need funds from an out-of-town source immediately, ask your benefactor to either wire you the money or send a certified check.

SHOW SLIDE3-25 ENDORSEMENTS

SHOW SLIDE3-26 AVAILABILITY OF FUNDS

V. CHECKBOOK REGISTER This is one of the most important parts of checking account management. It is vital that the register be completed in full each time a check is written. Otherwise, you will have no record of how many checks have been written, to whom, for what amount and, most importantly, what your remaining balance is. Ideally, you should enter each transaction in the register as soon as it occurs and re-compute the balance. However, few of us are perfect in this regard. Most banks offer checks that make a carbon copy that stays in your checkbook to give you an accurate record to update your register. The register itself is straightforward with areas to record what you put in, what was taken out, when transactions occurred and the resultant balance. However, mistakes made in filling out the register can be costly, so let's look at some common errors.

- A. Not subtracting ATM, service, and other fees. You must read your monthly statement to make sure they match what you have recorded in your transaction register.
- B. Postdating checks. This could cause problems if you ask someone to hold a check and they cash it anyway. Banks will pay the check immediately if there are sufficient funds; otherwise the check will be returned and result in added NSF and returned check charges.

SHOW SLIDE 3-27 CHECKBOOK REGISTER

SHOW SLIDE 3-28 COMMON REGISTER ERRORS

CLICK FOR BULLET

C. Splitting check pads between joint account holders. Make sure both parties involved know the status of the account. Maintain a central transaction register, and use duplicate checks for ease in remembering to whom the check was written.

CLICK FOR BULLET

D. Writing checks before the money is in the bank could be considered check “kiting”. Make sure money is always in the bank when you write a check. The check may clear sooner than you expect and be returned. “Kiting” occurs when you have two accounts at two separate financial institutions and write checks to deposit back and forth when you have no funds in either account—risky business and definitely illegal. Electronic transfers often allow almost instant funds transfer.

CLICK FOR BULLET

E. Not balancing the monthly statement. It is important to balance your statement every month, so that you will know what charges were incurred during the month, what deposits/withdrawals were made, and the month-end balance. The only way to detect errors, either yours or the financial institution’s, is to balance your statement.

CLICK FOR BULLET

F. Not recording checks written in the register. As mentioned before, the checkbook register is one of the most important parts of checking account management. Accurate record keeping is vital to maintaining a good account. Financial institutions can give updates over the phone or on-line if there is a question about a check, but most have converted to automated systems and prefer that you use them. You may want to consider duplicate checks to avoid this problem.

G. Addition/subtraction errors. If you have done so manually, follow up by using a calculator. Some checkbook covers even include a calculator for this purpose.

H. Not subtracting automatic deductions. If you have payments arranged on automatic deduction, be sure to know what date the payment is deducted from your account and record it in your register. Tip - record these on the same day you record your salary.

CLICK FOR BULLET

CLICK FOR BULLET

CLICK FOR BULLET

VI. RECONCILING YOUR ACCOUNT Many people think they don't have time to keep their checking account balanced or that it is not that important. Absolutely **WRONG**. A balanced checking account is the foundation upon which your personal finances rest. Reconciling or balancing your account is comparing your records with what the bank says you have. About every 30 days you will receive a statement from your bank that will have all transactions posted to your account for the statement period. Let's see how we use it to balance your checkbook.

- A. It's **EASY**: E – Ending balance from statement; A – Add deposits not on the statement; S – Subtract checks not cleared; and that gives you Y – Your balance minus any service charges and fees.
- B. What do you do if it doesn't balance? First, make sure you have entered all your automatic transactions, such as recurring bills, on-line bill pay, ATM fees, and other charges. If it still doesn't match, recheck your math. If you still can't resolve the balance, call for help at your financial institution.

SHOW SLIDE 3-29 RECONCILING YOUR ACCOUNT

SHOW SLIDE 3-30 BALANCING YOUR CHECKBOOK

SHOW SLIDE 3-31 PROBLEM RESOLUTIONS

VII. ACCOUNT BALANCING EXERCISE

- A. Step One. OK, now we are going to see how much of this we have really learned. We are going to simulate the first month's transactions after opening a new checking account. You have a list of transactions and a blank checkbook register in the materials that were provided to you. Find the two sheets that look like the ones on the chart. Using the list of transactions, go ahead and fill in your checkbook register. This is the first step in balancing your account.
- B. Step Two. Now that you have completed filling in your register and have your own balance, you will find a bank statement of your account in the materials provided. It looks like the picture in the chart. Using the bank statement and your register, go ahead and balance your account. The objective is to get your balance to match that of the bank, taking into account all the automatic transactions, fees, charges and the transactions that you yourself did. Please let me or the other instructor know if you are having any difficulty getting the balances to agree. It is very important that you be able to do this successfully, and if you have problems, that you understand why.

SHOW SLIDE 3-32 ACCOUNT BALANCING EXERCISE STEP 1

NOTE TO FACILITATOR

Allow sufficient time for students to fill out their check registers. Work with them as questions arise. Wait until all have finished this task before proceeding to the next step. **Last balance should be \$324.81**

SHOW SLIDE 3-33 ACCOUNT BALANCING EXERCISE STEP 2

SHOW SLIDE 3-34 ACCOUNT BALANCING EXERCISE STEP 3

NOTE TO FACILITATOR

Allow sufficient time for students to complete the exercise. Work with them as questions arise. Wait until all have finished this task before proceeding. **Students should discover that they have not entered the \$14.20 check order or the \$1.00 fee for use of another bank's ATM in their register. Therefore, the balance shown in their register is \$15.20 too high. When these two items are entered, the register balance should equal the statement balance of \$309.61**

VIII. PC OR ON-LINE BANKING AND/OR MONEY MANAGEMENT SOFTWARE All this can be done fairly automatically if you have a PC (personal computer), money management software and/or on-line capability to access your account(s). Let's look at the advantages and disadvantages to this approach, as well as some of the available software programs.

A. Advantages There are several attractive advantages to these ways of managing your personal finances.

1. Programs do the math. Your running balance is kept up to date (to the extent of your entries).
2. Repeated transactions are easy. Usually very few keystrokes.
3. You can budget easily. It's easy to allocate transactions to various categories.
4. Automatic transactions are tracked.
5. Upcoming payment reminders.
6. Help at tax time.
7. On-line interface. They can make electronic payments.
8. Reconciliation is a snap. Some even find the error when your own computer balance doesn't match your statement balance.

SHOW SLIDE 3-35 COMPUTER-ASSISTED BANKING

SHOW SLIDE 3-36 COMPUTER-ASSISTED BANKING - ADVANTAGES

B. Disadvantages. There is a downside to computer and on-line account management.

1. Set-up costs: computer and accessories, and the software itself usually run from \$25.00 to upwards of \$200.00, depending on how sophisticated you want to get.
2. Recurring costs. On-line service provider such as an internet service provider or a bill paying service. Many financial institutions now offer on-line bill pay for a fee.
3. Time. It usually takes more time to get all your data entered and to keep it up to date.

C. Examples of commercially available software and bill paying services. [This is for information only and IS NOT an endorsement of any particular products on the market.]

1. Money Management Software: Quicken, Manage Your Money, Microsoft Money.
2. Bill Paying Services: CheckFree, Bill Pay (usually available through your financial institution's web sites)

SHOW SLIDE 3-37 COMPUTER ASSISTED BANKING - DISADVANTAGES

SHOW SLIDE 3-38 COMPUTER ASSISTED BANKING - SOFTWARE/SERVICES

IX. NON-SUFFICIENT FUNDS (NSF) CHECKS

Writing checks with insufficient funds is a serious offense. Just because you still have checks in your checkbook doesn't mean you still have money in your account! This gets more service people in trouble than nearly anything else. You need to really pay attention to this. I'm going to make you aware of how you can fall into this snake pit, and how you can minimize your vulnerability. But first, let's take a look at the costs of writing rubber checks.

A. The costs of writing bad checks can be enormous, both financially and otherwise. Civilian penalties may include:

1. Bank fees and merchant fees (up to \$60)
2. Ruins your credit rating
3. Loss of account
4. Prospective employers may receive adverse information
5. Repeated offenses under \$200: 12 months in jail, up to \$2500 fine or both; or up to 5 years in prison.

B. Military ramifications can be even more serious and may include:

SHOW SLIDE 3-39 BAD CHECKS**Note to facilitator**

Ask the following questions:

1. How can bad checks affect your personal life?
2. How can bad checks affect your military career?

SHOW SLIDE 3-40 BAD CHECKS - CIVILIAN RAMIFICATIONS**SHOW SLIDE 3-41 BAD CHECKS - MILITARY RAMIFICATIONS**

1. Embarrassment, loss of exchange privileges.
2. Poor performance evaluations
3. Promotion pass over
4. Security clearance revocation
5. Unable to re-enlist
6. Duty assignments
7. Special programs
8. Other-than-Honorable Discharge
9. UCMJ Articles 123a and 134
10. Five years confinement at hard labor

B. What are the traps? We've already talked about several of the ways that you can end up writing a rubber check.

1. Intentional. This is a serious crime. Most states regard this as outright robbery
2. Postdated checks. Early processing
3. Automatic withdrawals
4. Miscellaneous fees. ATM, check, etc.
5. Math errors
6. Shoddy check register habits
7. Reconciliation negligence
8. Distraction, inattention
9. Stale account information –overseas, TAD, PCS
10. Poor coordination on joint accounts

SHOW SLIDE 3-42 BAD CHECKS - HOW THEY HAPPEN

C. How can you minimize your vulnerability?
Obviously, don't do any of the things on the previous list, but even the best intentioned sometime have lapses. How can this be avoided and how can you be protected from the risks and consequences?

1. Always enter every transaction into your register, at the time of the transaction, and do the math.
2. Enter automatic transactions bi-monthly.
3. Consider using software, and use it conscientiously
4. Keep a pad in your account.
5. Get over-draft protection, if available.

XI. CHECKING ACCOUNT TYPES AND

FEATURES Excluding Business accounts, which few of you are interested in at this stage of your lives, there are two primary types of checking accounts: individual and joint. We will now briefly discuss the features of each.

- A. Individual Account. As the name implies, an individual account is one for which you are the only person with access to the funds in that account.

SHOW SLIDE 3-43 BAD CHECKS - HOW TO PROTECT YOURSELF

SHOW SLIDE 3-44 INDIVIDUAL ACCOUNT

B. Joint Account. A joint account allows more than one person to write checks on the account. This is usually set up between spouses, but it can be set up between any two or more people. A joint account allows all persons named on the account access to all the funds in the account, and it holds all of them responsible for payment and problems on the account. This type of account has its own set of benefits and problems.

1. The primary advantage of a joint account, of course, is that all parties, usually you and your spouse, have access to all funds in the account.
2. Splitting the checkbook is a prescription for overdrawing the account, especially on a limited budget. You must keep track of all checks written, and with military duties, this could be difficult to coordinate. In a joint account, if one of you overdraws the account, you are both responsible for it, and it reflects on both of you. Even in a trusting relationship, having two accounts may be the way to go.

SHOW SLIDE 3-45 JOINT ACCOUNT

**SHOW SLIDE 3-46 JOINT ACCOUNT -
ADVANTAGE**

**SHOW SLIDE 3-47 JOINT ACCOUNT -
DISADVANTAGE**

C. Most financial institutions will offer a variety of checking account plans, and it can be confusing. If you have thought this out well ahead of time, you will be way ahead of the game. Even though most institutions will let you switch plans, it is better to do it right in the first place. Let's take a few minutes to talk about some features that will likely be offered in conjunction with your checking account.

1. Insured Account. Some accounts are not insured. We will talk about the types when we discuss the various types of financial institutions. For now, it is sufficient to say that some accounts are federally insured against loss, usually up to \$100,000 per account.
2. Interest-Bearing Account. Some accounts will actually pay interest (at low rates, but better than nothing); some of these may also require a minimum balance or minimum average balance.
3. ATM and Debit privileges. Some accounts have these features attached at your option or automatically – some with fees, others conditional or free.
4. Overdraft Protection. Some accounts have this at your option. Overdrafts are cured automatically by debiting another account in your name, such as a savings account or a credit card.

SHOW SLIDE 3-48 CHECKING ACCOUNT FEATURES

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5. Service Fees. Some accounts incur a monthly service fee, or a fee per check, or fees for ATM use, especially if you use it at some other institution's ATM. Sometimes there is a service fee only if your account falls below minimum balance limits.
6. Minimum Balance Requirements. Some accounts require minimum balance to open and/or to be maintained, others to waive certain fees, and others have no minimum requirements.
7. Poor Performance Charges. Most accounts incur associated charges for poor performance such as overdraft (even if you have overdraft protection), returned checks being deposited, stop payments, etc.

XII. TYPES OF BANK CARDS We need to talk about three kinds of cards: the ATM card, the Debit card, and the Credit Card. It's getting harder and harder to tell these cards apart, yet they affect your finances in different ways. You need to decide if you want to use them and if so, which type, how and when.

- A. The ATM Card This is a card that is unique to your financial institution that allows you to access your accounts at Automatic Teller Machines. Let's look at some features you need to know about.

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SHOW SLIDE 3-49 BANK CARDS

SHOW SLIDE 3-50 ATM CARDS

1. Usually you can perform a variety of automated teller functions such as checking your balance, withdrawing cash, making deposits, and transfer funds. Amounts of transactions usually have limits, such as a \$300 maximum withdrawal per day and deposits greater than funds on hand are not immediately available.
2. Some cards can ONLY be used in the ATM machines of the issuing institution, though this is increasingly rare. The reason is simple – fees. Often there is only a small monthly fee or no per-use fee for a minimum number of monthly uses of the ATM at your own financial institution; however, there is usually a fee for using another institution's ATM. The fee may be a rather high percentage if the amount you withdraw is small as the fee is usually fixed. And there may be fees not only from the machine owner, but also from your own institution.
3. Trademarks of various ATM networks such as Honor®, Plus®, Pulse®, Interlink, Cirrus®, or The Exchange indicate the flexibility of use you will have with your ATM card. Obviously the more there are, the more locations (and fees) you will be able to use it.

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4. To use your ATM card you have to activate it with your Personal Identification Number (PIN). That is done on a machine at the financial institution when it is issued to you. The PIN and the card are then all that stand between you (or anyone else) and your money.
5. The cards are magnetic so they can be corrupted – be careful with magnets.
6. Be sure to always collect your receipt when using your ATM card. The receipt is your only record of transaction until you get your statement. Some ATMs let you get a limited statement on the spot. Record the transaction in your account register promptly. It's too easy to forget, and set yourself up for overdraft.

B. The Debit Card Your debit card may look unique to your financial institution or it may look like a credit card. If it looks like a credit card, it can probably be used as a credit card, if you have a line of credit established. Most likely it can be used as an ATM card as well. If so, all of the above discussion applies to the debit card, especially the PIN part. As with the ATM card, your debit card can also have the trademarks of the various ATM networks and major credit cards, thus it will have that added flexibility of use (and fees) as well.

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SHOW SLIDE 3-51 DEBIT CARDS

1. The debit card works like a check in that it draws funds directly from your checking account. It is different from a check in that it is an electronic transfer, and instead of using your signature to authorize the payment, it uses the card and your PIN. Also, since it is electronic, the transaction clears very fast – in fact, often instantly and almost never more than one business day later. If you don't have the funds available, the transaction will not go through, so you CANNOT bounce a debit card transaction, but you CAN turn an issued check that has not cleared yet into rubber, so you have to stay on top of your balance.
2. You activate your debit card with your PIN the same as the ATM card. If the card can be used as a credit card, it is the use of the PIN that differentiates when it is used as a debit card versus as the credit card.
3. The debit card fees are the same as ATM card fees when it is used as an ATM card, especially at another institution's ATMs.
4. Receipts are just as important with debit cards as they are with ATM cards. Record the transaction in your account register promptly to avoid overdraft.

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5. Most debit cards double as an ATM card. Some also double as a credit card. It might seem this latter is the best of the “plastic” world. However, beware. It is often better to use it as a debit card because no interest is incurred, but if the merchant can only take a credit card, you can still make the transaction, only it applies to your line of credit instead of coming directly out of your checking account. If you don’t promptly pay it off, that could incur additional interest expense, but if you are on top of your personal finances, you can transfer funds over to your credit account and pay it off without additional expense. Of course that takes discipline – and that is what you must develop if you are to avoid the traps of easy credit. More on that in a later lesson.

C. The Pitfalls of using ATM and Debit Cards. You should be aware of several pitfalls when using ATM or Debit cards.

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SHOW SLIDE 3-52 PITFALLS OF ATM AND DEBIT CARDS

1. Both ATM and Debit cards are paperless, except for your receipt. If you don't absolutely stay on top of your real balance, you're setting yourself up to bounce checks. Remember, "plastic" taps your account instantly. Checks may take time to "clear." Just because you had enough in your account when you wrote the checks, that doesn't mean it will still be there by the time the checks clear unless you are careful.
2. Don't rely on your ATM balance if you have checks "floating" in the system. Your real balance is the ATM balance MINUS those checks.

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3. The only things between someone else and your money are your card and your PIN. Don't compromise your PIN. Don't tell it to anyone. Don't use it to make purchases over the phone. Don't write it in obvious places, instead memorize it, but don't use your obvious everyday words, names or numbers. It's amazing what can be found out about you on the Internet these days, especially if someone has your social security number. If your card disappears, get it turned "off" immediately – If someone also got or guessed your PIN, your account could be drained in a heartbeat. Reporting within two days could limit your liability to \$50; otherwise you could lose \$500 or more.
4. Don't use ATMs at night, in isolated places. You could get robbed.
5. Don't use ATMs to deposit cash. The institution could dispute the deposit, especially if you didn't get a receipt.
6. Protect your card from damage and magnets. If it stops working you could be inconvenienced or worse.

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7. Be careful with your receipts. They contain your account numbers. Dispose of them (shred) properly when you have recorded the information off of them and no longer need them. Save receipts that will support your tax return. Just safeguard them.

D. Credit Cards. If bounced checks are the number one problem for military members, credit cards are a very close second. Let's now look at the features and advantages of credit cards, and especially at the pitfalls associated with using them.

1. Credit cards require a line of credit and are liberally based on your current financial situation. They usually carry upper credit limits that are more than you should probably have, such that the average person could easily have credit card limits totaling sometimes up to 200% their annual salary. Accounts usually carry high interest rates (12 to 20%) and relatively low minimum required payments (3% of the outstanding balance). More on this when we talk about pitfalls. Credit cards vary in interest rates, grace periods, late charges, minimum payments, and credit limits. Some cards carry annual fees. It pays to shop. Some of the best cards can be found on the Internet.

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Note to facilitator

Ask the following questions:

1. How many of you have credit cards?
2. How many of you pay off the entire balance every

SHOW SLIDE 3-53 CREDIT CARDS

SHOW SLIDE 3-54 CREDIT CARDS - FEATURES

2. Credit Card Advantages. Cards can be useful. It's almost impossible to rent a high-value item without one. They allow you to shop by phone or over the internet -- a good way to get concert tickets without waiting in line, by the way. By making proper arrangements with your bank, you should be able to use a credit card as protection against overdrafts. They provide a record of your purchases and some degree of consumer protection. Some cards provide travel, rental car insurance, and/or road side rescue. Retailers may give a discount for use of certain cards, and they are good to have in event of true financial emergencies. Credit cards may not be Satan incarnate, but far too many people use them to pay the toll onto the highway that leads to financial ruin.

SHOW SLIDE 3-55 CREDIT CARDS - ADVANTAGES

3. Let me give you an example of how this happens. If you make just the minimum monthly payments on a \$2000 credit card purchase until the balance is paid off, you will end up paying about \$3500, and it will take you almost 8 years, probably far longer than you will have whatever you bought. If you run accounts up to the max with several credit cards, you might get to the point where you cannot make payments larger than the minimum, if that. This debt load can ultimately lead to bankruptcy. Being late with a payment makes matters worse. You will incur a late fee of \$25 to \$50. There is some danger of unauthorized use, but your liability is limited by law if you promptly report loss or unauthorized charges. By far, the biggest pitfall of a credit card, or credit of any form for that matter, is the temptation to live beyond your means. It's up to you to deal with this temptation. Be responsible. In the service you will live far better than you would on the same money in the civilian sector because of all the benefits available to you. For example, your on-station fitness center is free to you. Compare that to Gold's Gym or Bally's. You are going to be fed pretty well too. Housing is a given. You have many other benefits.

SHOW SLIDE 3-56 CREDIT CARDS - PITFALLS

If you live on a cash basis, and you keep your credit card expenditures to the limit that you can pay off each month, you will never have the credit card debt problems that plague so many in the service and in today's society.

XIII. ALTERNATIVES TO A CHECKING

ACCOUNT You must have an account of some type in order to receive pay through the DDS. Should you feel that you just can't manage a checking account, you could have your pay deposited to a saving account or "checkless checking account." This would require you to use an ATM card to obtain cash for daily expenses and you would have the additional hassle and expense of obtaining money orders or a certified check for bills you have to pay by mail. You could establish automatic transfers to pay recurring bills, but be advised that these transfers would NOT be made if you did not have sufficient funds in your account. You could also use on-line banking features to pay bills by mail, and a debit card for some in-person purchases. These methods would prevent you from bouncing a check, but would not substitute for some fiscal management.

XIV. SELECTING A FINANCIAL INSTITUTION

Banks and other financial institutions vary widely in their services and costs. Let's look at a few things you might want to consider when deciding which is right for you.

SHOW SLIDE 3-57 ALTERNATIVES TO CHECKS

SHOW SLIDE 3-58 SELECTING A FINANCIAL INSTITUTION

A. Location(s) and Hours. If you anticipate the need to physically visit your bank often, you will want one that is nearby and probably one with Saturday operating hours. The numbers and locations of ATM machines in the local area can also be a factor worth considering.

B. Services. Most banks advertise themselves as "full service", however, it is wise to ensure that services that may be particularly important to you are offered free or for a reasonable fee. These can include:

1. Methods and fees for transfer of funds between accounts including transfers to or from other institutions by wire.
2. Bill paying services could be particularly important to you during a deployment.
3. Insurance. Funds in most accounts are insured up to \$100,000 per account holder. Most investments are not insured. Additionally, many institutions are offering low-cost group life insurance on mortgage and car loans as well as accidental death and dismemberment coverage.
4. Check loan availability and rates.

SHOW SLIDE 3-59 HOURS AND LOCATIONS

SHOW SLIDE 3-60 BANK SERVICES

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5. Ask about rates paid on certificates of deposit and availability of other investment services.

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6. Also confirm availability and costs of alternate financial instruments such as money orders, cashier's checks, certified checks, and traveler's checks.

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7. Business services such as Notaries and signature guaranties should be available when needed.

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8. Safety Deposit Boxes. Every adult has certain items that simply **MUST** be protected from loss or destruction, such as birth certificates, passports and the like. See if the institution has a box available and determine the cost per year.

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9. Foreign currency exchange could be important if you receive orders to an overseas location.

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C. Statements. Most institutions offer monthly statements, but the legal requirement is 90 days. At this point in your financial life, you probably need to reconcile your checkbook every month, so ensure you will be getting a statement this often. Also, some banks do not routinely return cancelled checks without an additional fee. If this is important to you, determine availability and any cost.

SHOW SLIDE 3-61 STATEMENTS

D. Interest-Bearing Accounts. Some institutions pay interest on money deposited in checking accounts. It won't be much, unless you maintain a large balance, but it could partially offset costs associated with your account.

SHOW SLIDE 3-62 INTEREST BEARING ACCOUNT

E. Required Minimums. A minimum amount is usually required to open an account. It can range from \$5.00 to \$250.00. Additionally, some financial institutions have minimum balance requirements with some accounts and others waive fees based on minimum balance or minimum average balance.

SHOW SLIDE 3-63 MINIMUMS

F. Costs and Fees. Beware – financial institutions have fees for all kinds of things and it is getting worse every day. Usually the bigger the institution, the more fees they pile on, and they seem to invent new fees all the time. Here are a few of the more prevalent ones, but the list is by no means complete. You should get a complete explanation of all the fees that an institution charges, and constantly look for competitors who do not charge these. Often an institution will waive fees rather than lose you as a customer, especially if you point out to them that you can go to one of their competitors who does not charge the fee in question. Here are some of the common costs and fees you may encounter.

SHOW SLIDE 3-64 COSTS AND FEES

1. Service Charges. By law, institutions must tell you about all applicable service charges you will be charged. They can add up in a hurry, so beware!
2. Check Order Costs. You should inquire about the different types of checks available (i.e., plain, scenic, etc.) and their costs. You can order checks through your financial institution, or it may be less expensive to order them from a mail-order company. If you use a source other than your financial institution, be sure you send along a check re-order form to ensure that the numbers on the checks are printed correctly.
3. Costs per Check. Some institutions offer free checking and others allow you a limited number of free checks per month; thereafter, a charge per check written will be assessed. Some financial institutions charge a flat monthly fee. There are lots of free checking accounts available; why pay for them? Shop around for the best deal.
4. Insufficient Funds Charge. Financial institutions usually charge \$25.00 to \$35.00, but they pay the check and overdraw the account.

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5. Returned Check Charges. These apply when your financial institution does not pay the check. The amount is usually the same as the insufficient funds charge, but you get charged by both the bank AND the business to which the check was written if the business had the charge posted (on a sign, for example) when you tendered the check.
6. Minimum Balance Fees. If you go below a certain amount in checking and/or savings, you may be charged. Be sure and find out what the minimum amount is and the charge.
7. ATM Fees. Always ask what they are! Some financial institutions are now charging their own account holders to use their own ATMs. Typically, fees range from \$1.00 to \$2.00 per transaction, but can be more. Remember, when you use an ATM that is not owned by your institution, the machine owner will charge you, too.
8. Stop Payment Fees. You can stop payment on any check you write if you request it before the check reaches the bank for payment. There is usually a charge for this service.

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G. Putting it all together. OK, now we have reviewed all the major features and considerations about checking accounts, ATM, debit, and credit cards, services, and other factors you should consider when choosing your financial institution and deciding what you will want from that institution. In your packet of materials there is a chart with all of these items listed and blanks for comparison of up to three institutions. If you need more, you can make extra copies before you begin your real search, but at this time, you need to look over the chart and prioritize the items that are important to you. This will help you when it comes time to actually go through the process and make your selection. You need to think about what is important in terms of the necessary services and those that are nice but not necessary, then compare the cost of each. I would encourage you to put overdraft protection at the top of your list of necessary items. At this time go through and identify items as MUST or NICE – and then go back and prioritize the NICE ones. No need to prioritize the MUST items; if an institution doesn't offer all of them, it is disqualified. This may seem to be a lot of effort, but in the long run it is well worth a little extra effort to know that you have your money in the right place that's best for you.

SHOW SLIDE 3-65 SHOPPING FOR A BANK

XV. SOURCES OF HELP WITH BANKING AND YOUR CHECKBOOK

If you have a dispute with a bank, you should handle it as you would any other consumer complaint— start with the bank. The bank has a chain of command for handling complaints. Banks listen to your complaints because if you move your money to another bank, they lose money. If you still have a complaint look for help at the local and state level: the Better Business Bureau arbitration service, and the state banking regulatory agency. If you are still not satisfied, address your complaint to the Federal Reserve System (FRS). While the FRS does not have the authority to resolve all problems, many times filing a report with them will urge a bank to settle the problem. There are other sources of help available to you that are not available to people who are not in the Navy or other branches of the armed services.

SHOW SLIDE 3-66 SOURCES OF ASSISTANCE

XVI. CORE VALUES At this point I hope you see that it is not hard to manage your money. Doing so is part of your responsibility to the Navy and to society. If you keep track of your checks, credit or debit cards, and use your ATM card wisely, you will avoid many problems. You will be contributing to the solution. Sound money management will allow you to enjoy your time in the Navy, and for those of you who make the Navy a career, you will not have to look over your shoulder in regards to your financial responsibilities. It all starts with understanding the basics, such as how to balance your own checkbook. It also entails being ready to accept the responsibility of having more than just you involved. If and when you marry, your spouse will become a part of your financial plan and understanding these basics will make it much easier to manage as a couple. In short, the happiness you will achieve in marriage and life is often directly proportional to how well you manage your money.

SHOW SLIDE 3-67 CORE VALUES

SHOW SLIDE 3-68 SUMMARY QUESTIONS

Summary Questions

1. What is the process of selecting a financial institution?
2. Name three types of checking accounts.
3. Why is it important to reconcile your checking account?
4. List the fees involved in over drafting your checking account.
5. How can checks be used as legal proof of payment?
6. What are the legal ramifications for overdrawing your checking account?
7. What are the fees used involved in using a credit card?
8. Where can I go for help?

XI. SUMMARY During this class, we stressed the importance of properly managing your checking account. We discussed specific actions necessary to properly manage your account, and ramifications for failure to properly discharge this responsibility. We also talked about the various services offered by financial institutions, and how you can select an institution and mix of services that best fits your needs. We concluded by telling you where to turn if you have problems with financial institutions or encounter problems properly discharging your financial responsibilities. Use this information to conduct your financial affairs in a manner that will reflect positively on yourself and the United States Navy.

SHOW SLIDE 3-69 SUMMARY

SHOW SLIDE 3-70 EFFECTS OF COMPOUND INTEREST

Note to Facilitator

EFFECTS OF COMPOUND INTEREST